

**COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY**

TESTIMONY OF RICHARD A. MAC INNIS

EXHIBIT FGE-RAM-1

D.T.E. 05-_____

**SUBMITTED ON BEHALF OF
FITCHBURG GAS AND ELECTRIC LIGHT COMPANY D/B/A UNITIL**

April 20, 2005

1 Q. Please state your name and business address.

2 A. My name is Richard A. MacInnis. My business address is 6 Liberty Lane West,
3 Hampton, New Hampshire 03842.

4

5 Q. What is your educational background?

6 A. I have a Bachelors of Science in Business Studies with concentrations in
7 Mathematics and Computer Information Systems from the University of Southern
8 New Hampshire.

9

10 Q. For whom do you work and in what capacity?

11 A. I hold the position of Energy Trader, Unitil Service Corp. ("USC"), an affiliate of
12 Fitchburg Gas and Electric Light Company d/b/a Unitil. Both companies are
13 members of the Unitil System and subsidiaries of Unitil Corporation. USC
14 provides various professional services to subsidiaries of Unitil Corporation.

15

16 Q. Please describe your business background.

17 A. I have worked within the Energy Contracts group for 5 years, beginning as an
18 Associate Energy Analyst in March of 2000, and then promoted to Energy
19 Analyst the following year. I was then further promoted to Energy Trader
20 January 1st of 2003. Prior to my employment with the Energy Contracts group, I
21 worked as a meter reader for Unitil Corporation's New Hampshire subsidiary,
22 Unitil Energy Systems, Inc.

1

2 Q. Have you previously testified before the Department of Telecommunications and
3 Energy (the "Department") or another regulatory agency?

4 A. Yes, I have. Most recently I testified before the Department in D. T. E. 03-52,
5 Unitil's 2003 Integrated Gas Resource Plan (the "Supply Plan"). I also filed
6 testimony in D.T.E. 03-94, Unitil's request for approval of a Firm Liquid Natural
7 Gas Service Agreement with Distrigas of Massachusetts.

8

9 Q. What exhibits are you sponsoring in this proceeding?

10 A. I am sponsoring the following documents:

- 11 1. Exhibit FGE-RAM-1, my prefiled testimony on behalf of Unitil.
- 12 2. Exhibit FGE-RAM-2, Unitil's Tennessee Gas Pipeline ("TGP" or
13 "Tennessee") Contract No. 2915 (the "Contract").
- 14 3. Exhibit FGE-RAM-3, Sections 10.4 and 10.5 of the TGP Tariff.
- 15 4. Exhibit FGE-RAM-4, Unitil's written election to renew TGP Contract No.
16 2915.
- 17 5. Exhibit FGE-RAM-5, Unitil's 2003 Integrated Gas Resource Plan in
18 D.T.E. 03-52 (the "Supply Plan").
- 19 6. Exhibit FGE-RAM-6, charts providing a graphical representation of
20 Unitil's TGP contract renewal durations prior to and after the renewal of

1 TGP Contract No. 2915, and a summary of the contract terms and
2 extensions.

3 7. Exhibit FGE-RAM-7, Unitil's Spreadsheet Analysis Summary and
4 Unitil's SENDOUT® Model Summary of the costs associated with the
5 renewal of TGP contract No.2915.

6 8. Exhibit FGE-RAM-8, marketer notification of the decision to renew TGP
7 Contract No. 2915.

8 Also attached to my testimony as Appendix A is a copy of Fitchburg Gas and
9 Electric Light Co., D.T.E. 03-52 (2004), the Department's order approving
10 Unitil's current Supply Plan. Attached as Appendix B is a copy of Unitil's
11 Petition filed in D.T.E. 02-85, the Company's implementation plan to restructure
12 the TGP capacity contracts (the "TGP Contract Restructuring Plan"), which was
13 date-stamped approved by the Department on April 24 2003.

14

15 Q. What is the purpose of your testimony today?

16 A. The purpose of my testimony is to support Unitil's request for Department
17 approval of the Company's renewal of TGP Contract No. 2915. See Exhibit FGE-
18 RAM-2. The Contract would have automatically renewed for a term of 5 years if
19 Unitil did not notify TGP of a valid election by March 31, 2005, per Article III
20 Section 10.4 of the TGP Tariff. See Exhibit FGE-RAM-3. Unitil did have the
21 right to elect to extend for any term at maximum rates per this section of the TGP

1 Tariff. Rather than take no action and allow the contract to renew automatically,
2 Unitil analyzed the costs, benefits and alternatives available to the Company and
3 notified marketers of the Company's decision upon completion of this analysis, as
4 discussed later in this testimony. Unitil subsequently notified TGP in writing on
5 March 22, 2005 that the Company had elected to extend the term of Contract No.
6 2915 for a term of five years effective March 31, 2006. See Exhibit FGE-RAM-
7 4.

8
9 Q. If TGP makes a determination that a Company has not acted on its renewal option
10 for an existing contract through submission of a valid request, what are the
11 consequences?

12 A. Section 10.4 of the TGP Tariff provides that the contract will automatically
13 renew at max rates for a period of five years.

14
15 Q. What is Unitil's goal in renewing TGP capacity contracts as presented in the
16 approved TGP Contract Restructuring Plan?

17 A. Unitil's goal is to renew these contracts for staggered periods. In implementing
18 this strategy, contracts with more than one renewal can be extended for shorter
19 terms. Where a contract has only one remaining renewal option, however,
20 Unitil's strategy is to renew the contract for the maximum period in order to take
21 maximum advantage of the renewal option. By renewing capacity for this

1 duration, in combination with shorter durations for other contracts coming up for
2 renewal, Unitil will be able to diversify the capacity contract termination dates.

3 As stated in D.T.E. 02-85, it is Unitil's expectation that this approach will provide
4 time for further development of competition in the natural gas industry in
5 Massachusetts without requiring Unitil's customers to bear the risks of
6 committing to capacity which may not be required in the future.

7
8 Q. At the time that Unitil decided to renew TGP Contract No. 2915 for the maximum
9 five year term, was there only one renewal option for the contract remaining.

10 A. Yes.

11
12 Q. Was the TGP Contract Restructuring Plan part of Unitil's approved Supply Plan
13 in D.T.E. 03-52?

14 A. Yes. The TGP Restructuring Plan is presented on pages 73- 76 of the Supply
15 Plan. See Exhibit FGE-RAM-5. On page 76 of the Supply Plan, Unitil discusses
16 the upcoming renewal date for TGP Contract No. 2915 and the associated
17 reduction in its transportation capacity effective April 1, 2006 from the 14,057
18 Dth/day in the approved Supply Plan if the contract were not renewed.

19
20 Q. Do you have an Exhibit that summarizes the timetable for elections for the
21 remaining TGP contracts?

1 A. Yes. Exhibit FGE-RAM-6 provides a summary of Unitil's current TGP capacity
2 contracts by zone, contract MDQ, associated expiration dates prior to and after the
3 renewal of TGP Contract No. 2915, the general terms and conditions for
4 extension and the deadlines for extension.

5

6 Q. What is Unitil's goal in extending TGP Contract 2915 for the maximum five year
7 period?

8 A. Unitil's goal is to continue to maintain a flexible and reliable best cost system and
9 to maintain the staggered contract renewal terms to maintain a portfolio of short-
10 and medium-term contracts with staggered, or seasonal, termination dates. This
11 treatment is consistent with the Resource Planning Guidelines in the Company's
12 Supply Plan. See Exhibit FGE-RAM-5. This also allows Unitil to take full
13 advantage of the one remaining contract renewal option for the Contract. With
14 the renewal for the Contract, the current capacity level for city gate delivery at
15 14,057 Dth per day, as approved in the Supply Plan, will be maintained through
16 March of 2007. At that time Unitil will have the option to reduce or renew 4
17 contracts as shown in Exhibit FGE-RAM-6.

18

19 Q. Does Unitil have the ability to renew TGP Contract 2915 for a term of its
20 choosing?

1 A. Yes. As discussed earlier, where specific renewal options remain Unitil can
2 renew for a term of its choosing. Exhibit FGE-RAM-6 details the term renewal
3 options available to the Company. The options are for flexible term renewals to a
4 Right of First Refusal (ROFR). As also discussed earlier, renewing contract 2915
5 for five years has kept the current portfolio of capacity contracts staggered and
6 has taken maximum advantage of access to this capacity through the last
7 remaining renewal option for this contract.

8

9 Q. Please explain the process that Unitil undertook to renew TGP Contract No. 2915.

10 A. TGP has informed Unitil that the primary TGP pipeline moving gas east is fully
11 subscribed in New England and any capacity which is released will therefore
12 become subscribed to by other parties during the following open season. In order
13 to meet firm sales customer requirements, the Company therefore has two options
14 at this time; (1) renew TGP Contract No. 2915 or; (2) increase the amount of on-
15 site peaking supplies, either liquefied natural gas ("LNG") or liquefied propane
16 gas ("LP"), which will require the trucking of additional LNG and LP into these
17 facilities. Unitil ran two detailed econometric analyses to determine the costs
18 associated with each option, a spreadsheet model and an analysis using the
19 SENDOUT® Model¹. The summary results of these analyses are shown on
20 Exhibit FGE-RAM-7.

¹ The SENDOUT® Model was used, and described extensively, in D.T.E 02-85 and D.T.E. 03-52.

1

2 Q. Please discuss the results of the spreadsheet analysis.

3 A. The analysis compares the total cost of delivering gas to Unitil's city gate for
4 supplies delivered on TGP Contract No. 2915, Zone 0 and L to on site peaking
5 LNG and LP supplies. The Spreadsheet Analysis compares supply, fuel and
6 commodity charges using either pipeline supplies delivered through TGP Contract
7 No. 2915 or on site peaking supplies. The costs associated with the analysis for
8 pipeline supply is based upon the pipeline demand charges and the NYMEX
9 commodity futures for supplying commodity to Unitil's city gate, including fuel
10 losses and TGP variable commodity costs. The costs associated with the analysis
11 for peaking supply is also based on NYMEX futures, and includes trucking costs.
12 The result of this analysis indicates that renewal of TGP Contract No. 2915 is the
13 least cost alternative as shown on Exhibit FGE-RAM-7².

14

15 Q. Please discuss the results of the SENDOUT® Model analysis.

16 A. The SENDOUT® Model evaluates the fixed and variable cost of transportation,
17 supply, storage and peaking supplies needed to meet the specified system demand
18 for the forecast period. The result of this analysis also indicates that renewal of
19 TGP Contract No. 2915 is the least cost alternative, as also shown on Exhibit

² Extension of the analysis beyond 2009 is constrained because NYMEX futures are not currently available beyond that time.

1 FGE-RAM-7. This Model is more comprehensive than the static spreadsheet
2 analysis and validates the results of the spreadsheet analysis.
3

4 Q. Are there other issues to be considered with the alternative for increasing on-site
5 LNG and/or LP supplies?

6 A. Yes. Reliability of pipeline supplies versus supplies relying on over the road
7 transportation should also be taken into consideration. With design year
8 conditions, Unitil currently plans for a two day supply of peaking gas at the LNG
9 facility and an approximate four day supply at the LP facility. Both are used in
10 connection with TGP gas supplies to meet firm supply needs and both on-site
11 storage amounts would be reduced by any decrease or interruption of firm
12 pipeline gas supplies. The reliability of over the road transportation was tested
13 during the 1999-2000 winter season when a Force Majeure was initiated and
14 rationing implemented due to a drivers not being available during the first cold
15 snap.
16

17 Q. Were there other non-price issues considered in renewal of the TGP Contract
18 No 2915?

19 A. Yes. Prior to the renewal of TGP Contract No. 2915 Unitil had discussions with
20 TGP regarding the availability of TGP capacity in New England and any
21 opportunity that may exist to acquire replacement capacity in the future if the

1 Contract was not renewed. Unitil was informed that any reductions of the
2 capacity currently held by Unitil under the Contract would become generally
3 available to the marketplace and that there was no guarantee that such
4 replacement capacity would be available specifically for Unitil's purchase and use
5 in the future. Further, Unitil was informed that Tennessee's long haul capacity
6 into the New England Market was generally highly sought after and therefore that
7 it was very likely that such capacity would be subscribed by others, quite possibly
8 on a permanent basis. While approximately 550 Dth of Firm Zone 6 capacity was
9 available on the TGP lateral to the Unitil city gate, Unitil's experience over the
10 past few years in issuing RFP's for gas supplies in zone 6 indicates that there have
11 been limited supplies available for transportation on this lateral. The expansion of
12 the Maritimes & Northeast pipeline has done little to increase the amount of
13 supplies into TGP Zone 6. In contrast, along the gulf coast, where the receipt
14 points for TGP Contract No. 2915 exist, there are many more suppliers available
15 with better pricing terms than for other TGP Zones, resulting in relatively less
16 volatility and better liquidity. The renewal of TGP Contract No. 2915 therefore
17 provides Unitil with supply and price flexibilities that are not available with other
18 options. The Contract also provides the additional benefit of filling storage
19 during the warmer months of the year when not being used to transport supply to
20 firm customers. While all of Unitil's long haul contracts provide this benefit, any
21 reduction in TGP Contract No. 2915 would reduce injections to storage and

1 further require Unitil to rely more heavily on storage injections from more
2 expensive pipeline supplies.

3
4 Q. Did Unitil receive any marketer input regarding the decision to renew TGP
5 Contract No. 2915?

6 A. No. Unitil notified marketers of the Company's decision to renew the Contract.
7 Details of the notification process are provided in Exhibit FGE-RAM-8 . Unitil
8 also posted information on its website starting in December 2004. Unitil did not
9 receive comments from marketers in response to the notification process.

10
11 Q. Do you feel that the renewal of TGP Contract No. 2915 is consistent with Unitil's
12 Resource Planning Guidelines?

13 A. Yes. The Company has demonstrated that it continues to maintain a reliable and
14 flexible planning process to meet customer's needs. As part of this planning
15 process Unitil continues to identify opportunities that would allow the Company
16 to maintain a portfolio of long and short term resources capable of meeting firm
17 customers needs in a reliable, flexible and best cost manner, consistent with the
18 Guidelines.

19
20 Q. Does this conclude your testimony?

21 A. Yes, it does.